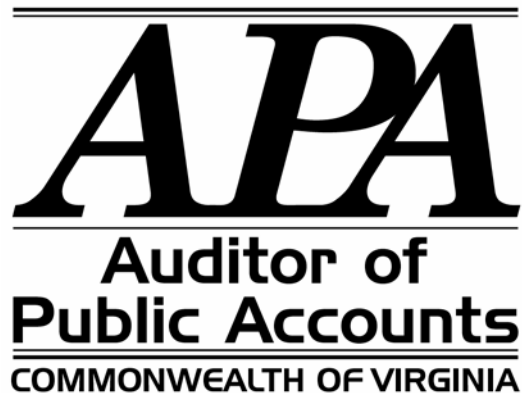


**COMMONWEALTH TRANSPORTATION FUND
AGENCIES OF THE SECRETARY OF TRANSPORTATION**

**SPECIAL REPORT
OCTOBER 2004**



AUDIT SUMMARY

This report discusses the financial activities of all agencies reporting to the Secretary of Transportation. The agencies are the Departments of Transportation, Motor Vehicles, Rail and Public Transportation, and Aviation, the Motor Vehicle Dealer Board and the Virginia Port Authority. We will also issue a report on the financial statements of the Virginia Port Authority as required by certain bond indentures. In addition, we will issue a separate report to discuss Transportation's prior year audit findings.

In accordance with the Appropriation Act, we will issue separate follow-up reports on the Department of Transportation's Special Review of Cash Management and Capital Budgeting Practices, as well as the Department of Motor Vehicles Cost Analysis; however, we will include background information for those reports here.

The transportation agencies oversee land, air, and water transportation in the Commonwealth. Responsibilities include collecting revenues from taxes, licenses, and vehicle registrations to fund operations; developing and maintaining highways, ports, and airports; and assisting in the development of private and local rail and mass transportation, highways, ports, and airports.

Our audit of these agencies for the year ended June 30, 2004, found:

- internal control matters that we consider reportable conditions, but not material weaknesses;
- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System; and
- instances of noncompliance with applicable laws and regulations tested that are required to be reported under Government Auditing Standards.
- The section entitled "Findings and Recommendations" includes our findings. The items listed below are the more significant issues that we have included:
- The Department of Motor Vehicles should assess needs and develop policies and procedures over the Fuels Tax program.
- The Department of Rail and Public Transportation should strengthen internal controls in the budgeting and accounting support functions.

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COMMONWEALTH TRANSPORTATION FUND

AGENCIES OF THE SECRETARY OF TRANSPORTATION

Overview

This report includes all agencies reporting to the Secretary of Transportation. The agencies are the Departments of Transportation (Transportation), Motor Vehicles (Motor Vehicles), Rail and Public Transportation (DRPT), and Aviation (Aviation), the Motor Vehicle Dealer Board (Dealer Board), and the Virginia Port Authority (Port Authority). These six agencies employ over 12,000 people with an annual budget of approximately \$3.4 billion. In addition to this report, we will be issuing a separate financial report for the Port Authority and special reports on Transportation and Motor Vehicles.

These six transportation agencies oversee land, air, and water transportation in the Commonwealth. Their responsibilities include collecting revenues from taxes, licenses, and vehicle registrations to fund operations; developing and maintaining highways, ports, and airports; and assisting in the development of private and local rail, mass transportation, highways, airports, and ports. These agencies report to the Secretary of Transportation. Transportation and DRPT also report to the Commonwealth Transportation Board (the Board) who provides direction and review of statewide transportation projects.

The Board is primarily responsible for locating routes, approving construction contracts, creating traffic regulations, naming highways, and administering and allocating the Commonwealth Transportation Funds (CTF). The Aviation Board and the Port Authority Board of Commissioners provide additional oversight to Aviation and Port Authority practices and allocation of funds.

The CTF is a group of special revenue funds used to account for all revenues designated for highway operations, maintenance, construction, and related activities, excluding toll facilities. The 1986 Special Session of the General Assembly established the current transportation-funding framework. This framework includes the collection and allocation of transportation revenues. The Virginia Transportation Act (VTA), enacted by the 2000 General Assembly Session, changed the allocation funding process to accelerate some high priority projects and get delayed projects back on schedule.

Transportation Funding

Sources of Funds

As illustrated in Table 1, the CTF has three primary funding sources that support the Commonwealth's transportation agencies and their activities. In fiscal year 2004, these sources generated over \$3.2 billion in transportation funding. The sources are, specific transportation user fees and taxes, such as fuels tax, motor carrier fees, vehicle titling fees, and a half-cent state sales-and-use tax, are dedicated to transportation needs and federal highway funding. The Code of Virginia requires the allocation of these transportation revenues primarily between two funds, each designated for specific purposes, the Highway Maintenance and Operating Fund and the Transportation Trust Fund.

The Port Authority is a component unit of the Commonwealth. Tables 1 and 2 list sources and uses of CTF excluding the activities related to the Port Authority. We will issue a separate report on the financial statements of the Port Authority.

Table 1

Sources of Transportation Funds

Taxes	\$1,907,331,803
Fees, licenses, and permits	415,820,472
Federal grants and contracts	664,317,255
General Fund appropriations	122,977,723
Tolls	56,928,031
Fines and assessments	24,503,640
Interest, dividends, and rents	22,964,149
Bond proceeds	4,679,309
Other	33,378,085
Receipts from cities, counties, and towns	56,259,538
Transfers	<u>(99,705,427)</u>
Total resources	<u>\$3,209,454,578</u>

Source: Commonwealth Accounting and Reporting System - Cash Basis

The HMO fund receives most of the revenues generated by motor fuels tax, motor vehicle sales tax, and the annual vehicle license fee. During fiscal year 2004, deposits to the HMO fund were approximately \$1.3 billion. The principal use of these revenues is the maintenance of Virginia's extensive network of interstate, primary, urban, and secondary roads. This includes the costs of resurfacing roads, pothole repairs, and other maintenance activities. In addition, the HMO fund supports the operating costs of Transportation and DRPT.

The Transportation Trust Fund (TTF) finances the construction of new transportation infrastructure. The largest state contribution comes from one-half cent of Virginia's sales and use tax. The fund also receives a share of the revenue generated by the Commonwealth's fuels taxes, motor vehicle sales tax, and annual vehicle licensing fees. The majority of federal transportation revenues are dedicated to the Highway Construction Fund. In fiscal year 2004, deposits were approximately \$770 million. A detailed table of sources and uses of funds by agency is included in Appendix A.

Uses of Funds

The Code of Virginia establishes the allocation of the TTF according to a stated formula: mass transit (14.7 percent), ports (4.2 percent), airports (2.4 percent), and highways (78.7 percent). The prioritization of activities funded is loan repayments, highway maintenance and operations, aviation, mass transit, ports, support to other state agencies, administration, upkeep of the Transportation's buildings, and certain other activities. The funding allocation for Motor Vehicles' operations occurs before the transfer of revenues to the CTF.

The Virginia Transportation Act of 2000 (VTA) established the Priority Transportation Fund (PTF), a component of the TTF. Revenues directed to the PTF come from a variety of new and existing revenue sources, including revenues generated by a change in the Virginia Fuels Tax Act, TTF, and HMO revenue in excess of forecasts and any other appropriations that the General Assembly or Governor may provide.

Transportation may only use these funds to finance the priority transportation projects designated in the VTA. If the Board cannot spend the funds on these priority projects, they may permit Transportation to reallocate the funds designated to a priority project within a transportation district among other projects within the same district as needed to meet construction cash-flow needs.

During fiscal year 2004, the PTF received almost \$83 million in General Funds, \$21 million from the Highway Construction Fund, and \$20 million in additional revenues attributable to the Virginia Fuels Tax Act. Transportation spent over \$76 million in PTF projects for fiscal year 2004. In addition, Transportation transferred approximately \$117 million to fund Federal Reimbursement Anticipation Notes (FRAN) debt service and over \$23 million to the Northern Virginia Transportation District and the Route 58 Corridor Development funds.

In fiscal year 2004, the agencies under the Secretary of Transportation spent over \$3 billion, or 12 percent of a \$26 billion statewide annual budget. As illustrated in Table 2, maintenance and construction of highways were the largest uses of these funds.

Table 2

Uses of Transportation Funds

Highway acquisition and construction	\$1,226,538,754
Highway maintenance	879,460,577
Financial assistance to localities	295,971,499
Administration and regulation	136,808,753
Toll facilities	37,982,558
Debt service, principal and interest	223,071,403
Rail and public transportation	158,723,446
Aviation	20,145,569
Other uses	<u>33,009,251</u>
Total uses	<u>\$3,137,561,029</u>

Source: Commonwealth Accounting and Reporting System - Cash Basis

General and Non-General Funds

Revenue collections have steadily increased over the past decade; however, at the same time, Transportation has experienced shortages of funding for construction of new projects and maintenance of existing roadways. To understand the current transportation situation in the Commonwealth, it is important to understand how the Commonwealth forecasts, budgets, and spends funding. This section of the report explains the mechanisms used to track the collection and allocations of transportation funds.

The Commonwealth classifies revenues in two ways, General Fund revenues and Non-General Fund revenues. General Fund revenues are those revenues not earmarked for expenses before collection. For example, individual income taxes, when collected, are General Funds and the Acts of the Virginia General Assembly guide how they are spent. On the other hand, Non-General Fund revenues represent specific revenues segregated in specific accounts for a specific use. For example, the Commonwealth maintains the Literary Fund, whose revenues support localities in the construction of primary and secondary schools.

Although the transportation agencies receive some General Fund revenues, most of the funding comes from Non-General Fund revenues set aside in the CTF. Table 3 shows the percentage of General and Non-General Funds budgeted for transportation agencies. The fiscal year 2004 budgeted General Fund revenues do not include a \$50 million transfer to Transportation. Although the General Assembly appropriated these funds for fiscal year 2003, DPB did not approve the transfer until fiscal year 2004. As a result, actual 2004 General Fund revenues for transportation agencies were \$123 million instead of the \$73 million shown in Table 3.

Table 3

General Fund to Non-General Fund Budgets

	<u>General Fund</u>	<u>Non-General Fund</u>	<u>Percentage</u>
2000	\$ 47.5	\$2,666.95	1.78%
2001	325.6	2,850.45	11.42%
2002	45.0	2,816.77	1.60%
2003	140.7*	2,621.09	5.37%
2004	73.0	3,133.38	2.33%

Sources: Chapter 1072, 2000 Acts of Assembly, Chapter 814, 2002 Acts of Assembly, Chapter 943, 2004 Acts of Assembly

* Includes \$50 million not transferred until 2004

Commonwealth Transportation Fund Budget Development

Both state and federal revenues are funding sources for the CTF. State revenues consist of various taxes and fees that support the primary transportation funds. There are also several direct sources of revenues including federal funds, debt, toll revenues, reimbursements from localities, and public- private transportation arrangements.

The Department of Taxation (Taxation) prepares revenue estimates for the major state revenue sources. Taxation bases this forecast on economic models used to project revenues using key factors including national and state economic scenarios. This process is the same method used to forecast General Fund revenues. In addition, Transportation prepares the federal revenue forecast based on federal highway apportionment tables. The 2004 forecast of HMO and TTF revenues, prepared by Taxation, is included in Appendix B.

Taxation provides two CTF forecasts: the standard and an alternative. The purpose of these forecasts is to provide two distinct perspectives of the national economy with the alternative outlook typically being the more conservative forecast. Taxation subscribes to national economic forecasts, which provide information for several regions and international industries, including state governments. The Governor's Advisory Board of Economists and Advisory Council on Revenue Estimates recommend the choice of the standard or alternative outlook to the Governor in independent assessments.

The budget development process consists of two phases: revenue forecast and cost estimation. Because the CTF is special revenue funded, the success of transportation incentives is dependent upon reliable forecasts and accurate cost estimations. Overly optimistic forecasts or inaccurate project cost estimations can lead to cash flow and project completion issues. This section reviews the state and federal revenue forecasting methodology and accuracy over time. We also look at the methods to estimate maintenance and construction costs over time and the historical impact of forecast and cost estimation accuracy.

Revenue Forecasting

Prior to fiscal year 2002, Motor Vehicles performed a portion of CTF forecasting. Since then, this function has transferred to Taxation who is now responsible for forecasting all major sources of tax revenue for the CTF. As noted in Table 4, Taxation estimates most of the revenue sources tied to fuels taxes and user fees. Taxation also forecasts sales tax revenue for the one-half cent dedicated to transportation. Transportation is responsible for forecasting revenues from transportation related activities.

Table 4

**Revenue Sources and Collection Points
of the Commonwealth Transportation Fund**

<u>Revenue Source</u>	<u>Collection Agency</u>	<u>Forecasting Agency</u>
Motor vehicle fuels - gas tax	Motor Vehicles	Taxation
Motor vehicle clean special fuels tax	Motor Vehicles	Taxation
Motor vehicle sales and use tax	Motor Vehicles	Taxation
Motor vehicle rental tax	Motor Vehicles	Taxation
Motor vehicle International Registration Plan	Motor Vehicles	Taxation
Motor vehicle license fee	Motor Vehicles	Taxation
Aviation fuel tax	Motor Vehicles	Taxation
Motor carrier registration fee	Motor Vehicles	Taxation
Road tax on motor carriers	Motor Vehicles	Taxation
Weighing fees and violation damages	Motor Vehicles	Taxation
Sales and use tax	Taxation	Taxation
Hauling permit fees	Motor Vehicles	Taxation
Highway permit fees	Motor Vehicles	Transportation
Mileage permit fees	Motor Vehicles	Taxation
Outdoor advertising	Transportation	Transportation
Public right of way use fees	Transportation	Transportation
Truck demo use permit	Transportation	Transportation
Overload permits	Motor Vehicles	Taxation
Sale of goods and services to state entities	Transportation	Transportation
Sale of land and building	Transportation	Transportation
Sale of land and building – Right of way	Transportation	Transportation
Sale of land and improvements – Right of way	Transportation	Transportation
Sale of equipment	Transportation	Transportation
Interest, dividends, and rents	Transportation	Transportation
Fines, forfeitures, court fees, etc.	Motor Vehicles	Transportation
Toll revenue	Transportation	Transportation
Proceeds from securities lending	Transportation	Transportation
Receipts from cities, towns, and counties	Transportation	Transportation
Highway planning	Transportation	Transportation
Federal Highway Program	Transportation	Transportation

In developing the revenue estimate, Taxation considers a number of factors and variables, including motor fuel prices, vehicle prices, personal income, motor fuel consumption, motor vehicle sales, new taxable titles, and vehicle registrations. Based on a combination of these factors and trends in transportation revenue collections, Taxation estimates what they believe to be the best projection to the Secretary of Finance for approval. Typically, the revenue estimates released in December of each fiscal year reflect estimates for the current fiscal year and six years beyond.

Each December, the Governor, the Secretary of Finance, and Taxation, release their formal revenue estimate for the Commonwealth, including the CTF related revenues. This estimate becomes the basis of all transportation appropriations. The transportation agencies, the Commonwealth Transportation Board, and the General Assembly use the results of this forecast in the development of the agencies' budgets.

Federal Grants and Earmarks

Federal Transportation Funds are the second major source of funding for the CTF. These federal funds assist in providing for construction, reconstruction, and improvement of highways and bridges on

eligible federal highway routes and for other specific purposes. In fiscal year 2004, federal transportation revenues were 21 percent of the total revenues allocated for transportation funding in the Commonwealth.

The Federal-Aid Highway Program is a reimbursable program, and as such, the federal government only reimburses for costs actually incurred each year. Federal funding consists of two basic types: Highway Trust Funds (HTF) and earmarks. The Federal Highway Administration (FHWA) distributes HTF based on a formula established by the federal government. The HTF also contains other discretionary funds for Transportation and Rail and Public Transportation projects. On the other hand, earmarks are grants for specific amounts dedicated to specific programs or projects. These grants generally require matching contributions by the Commonwealth to receive actual FHWA reimbursement.

FHWA distributes federal funds through apportionments. These apportionments act as lines of credit, Transportation may draw upon these funds as federally assisted projects are developed. Assignment of federal funds through apportionment occurs before Transportation submits actual expense reimbursement requests. Since many highway projects take multiple years to complete, apportionments have a four-year obligation period before they expire. Once they expire, Transportation must return any unused funds to the federal government for reapportionment. Historically, Virginia uses all its available apportionments.

The apportionment of federal transportation dollars are governed by federal legislation known as TEA-21 (HR2400, 1998), passed in Congress in 1998. Included in this legislation was a series of tables, by federal fiscal year, which estimated the amount of federal transportation apportionments and earmarks each state could expect. As reported previously, states may reserve apportionments for four years before it must be obligated, and some, like the Commonwealth, carried forward an apportionment balance. This balance accumulates with the current year apportionment. However, to control spending, TEA-21 also included a ceiling on the amount the states can obligate in a single federal fiscal year.

Prior to fiscal year 2003, Transportation did not consider this ceiling, assuming and budgeting for the full, carried forward apportionment amount. This affected Transportation's ability to accurately estimate collectible revenue. Transportation overstated its estimated funding and increased the risk it would over commit the Commonwealth on construction and maintenance contracts. Therefore, as illustrated in Table 5, the Commonwealth's practice to budget on the projected federal revenues often caused the forecasted revenues to exceed actual revenues.

Table 5

Federal Grants and Contracts Revenues

Year	Highway Maintenance Fund		Transportation Trust Fund		Total Commonwealth Transportation Fund		
	Forecast	Actual	Forecast	Actual	Total Forecast	Total Actual	Variance
2000	\$11.1	\$ 9.0	\$ 700.7	\$504.8	\$711.8	\$513.8	-27.8%
2001	5.7	11.5	765.7	537.9	771.4	549.4	-28.8%
2002	22.7	15.1	952.4	948.8	975.1	963.9	-1.1%
2003	-	13.6	669.4	678.3	669.4	691.9	3.4%
2004	-	13.4	1,068.8	639.2	1,068.8	652.6	-38.9%

Source: Department of Taxation
in millions

Beginning with fiscal year 2003, Transportation began considering the ceiling in its budget process. In 2004, Transportation used the average obligation authority limit from 1999-2003, and began budgeting by decreasing the full apportionment amount by ten percent.

Forecasting Accuracy

The transportation agencies budget on an annual, biennial, and six-year basis using these revenue estimates. The accuracy of the estimates can influence decisions as to how much and which construction and maintenance work is scheduled and accomplished each year and throughout the Six-Year Improvement Program. As previously noted Motor Vehicles, Taxation, and Transportation collect and forecast revenues that support transportation. All of these estimates are part of the annual budgeting process for the Commonwealth.

As illustrated in Tables 6, 7, and 8, transportation revenues from state taxes and fees have steadily increased; however, total actual revenues lagged behind total forecasted revenues for at least four of the last five years. This variance is primarily due to the disconnection between federal apportionment and reimbursement. Revenue estimates are prepared using the total forecasted revenues; therefore, transportation funding has been consistently over budgeted.

Transportation Revenues *

Table 6

State Taxes and Fees Revenues

Year	Highway Maintenance Fund		Transportation Trust Fund		Total Commonwealth Transportation Fund		
	Forecast	Actual	Forecast	Actual	Total Forecast	Total Actual	Variance
2000	\$1,157.6	\$1,193.1	\$658.4	\$689.8	\$1,816.0	\$1,882.9	3.7%
2001	1,171.8	1,180.4	728.5	750.5	1,900.3	1,930.9	1.6%
2002	1,175.9	1,226.3	739.9	749.4	1,915.8	1,975.7	3.1%
2003	1,292.8	1,256.1	756.3	744.9	2,049.1	2,001.0	-2.3%
2004	1,285.0	1,334.6	773.4	799.7	2,058.4	2,134.3	3.7%

Table 7

Other Transportation Revenues **

Year	Highway Maintenance Fund		Transportation Trust Fund		Total Commonwealth Transportation Fund		
	Forecast	Actual	Forecast	Actual	Total Forecast	Total Actual	Variance
2000	\$11.1	\$ 9.0	\$ 785.0	\$ 615.7	\$ 796.1	\$ 624.7	-21.5%
2001	5.7	11.5	862.1	638.2	867.8	649.7	-25.1%
2002	22.7	15.1	1,053.1	1,062.3	1,075.8	1,077.4	0.2%
2003	-	13.6	779.1	783.8	779.1	797.4	2.3%
2004	-	13.4	1,241.0	763.8	1,241.0	777.2	-37.4%

** Other revenues include federal grants and contracts, receipts from localities, and toll and miscellaneous revenues

Table 8

Total Transportation Fund Revenues

<u>Year</u>	<u>Forecast</u>	<u>Actual</u>	<u>Variance</u>
2000	\$2,612.1	\$2,507.6	-4.0%
2001	2,768.1	2,580.6	-6.8%
2002	2,991.6	3,053.1	2.1%
2003	2,828.2	2,798.4	-1.1%
2004	3,299.4	2,911.5	-11.8%

* Source: Department of Taxation
in millions

Project Priorities and Transportation Planning

The transition from revenue estimation to a budget of transportation projects involves a two-step process. These steps include the statutory allocations of the revenues, which are discussed later, and the development of transportation project priorities.

The development of transportation project priorities includes making a long-term assessment of transportation needs in the Commonwealth and then converting these needs into projects. The long-term process, referred to as VTrans2025, develops the long-term assessment and priorities. The Six-Year Improvement Program is the mechanism that the Commonwealth Transportation Board uses to schedule and program projects. Following is a discussion of both of these processes.

VTrans2025

The Commonwealth Transportation Board, as directed by the 2002 Virginia General Assembly, is developing a statewide multimodal long-range transportation plan with a statewide focus. The legislation calls for the development of a plan in three phases and identifies specific deliverables for each phase. This plan, titled VTrans2025, is a combined effort of four state transportation agencies: Aviation, DRPT, the Port Authority, and Transportation. VTrans2025 is a formal planning effort that analyzes the future trends and needs of highway motorists, rail and transit passengers, freight shippers, airline travelers, cyclists, and pedestrians.

The VTrans2025 Policy Committee oversees the development of the plan. The committee includes management from the four modal agencies, Commonwealth Transportation Board members, representatives from the Virginia Aviation Board and the Port Authority Board of Commissioners, and the Secretary of Transportation's Office. A VTrans2025 Technical Committee, chaired by the Secretary's Office and composed of planning staff from each of the four modal agencies, prepares the plan and other products associated with VTrans2025.

The final VTrans2025 phase will be complete by 2005. Phase 1 began in 2001 with stakeholder discussion group meetings across the state and the establishment of long-range goals and objectives. Phase 2, the vision component of the plan, included stakeholder outreach meetings and evaluation of various transportation-related policies, and an inventory and assessment of the existing transportation system. The last phase stage consists of a report that serves as both a vision plan that establishes broad multimodal transportation policy goals, objectives, and strategies and a multimodal transportation needs assessment that identifies large-scale systems of multimodal projects.

Six-Year Improvement Program

The Six-Year Improvement Program (SYIP) outlines the Board's plan to distribute available funds for ports, airports, public transit, rail, and prioritized highway construction projects in the current fiscal year. It shows how the Board plans to distribute anticipated available funds for the next five fiscal years and gives an annual update of the SYIP. The program also identifies the secondary system statutory distribution of funds to the counties, as well as the distribution of funds for items earmarked by the General Assembly. In addition, the SYIP includes bond-funded projects.

The SYIP has two phases for highway projects: development and construction. Projects in the development phase are in the planning stage and funding is not yet available for their construction. Projects in the construction phase have enough funding to begin building within the next six fiscal years. The SYIP gives priority to those projects that address critical safety and mobility issues and environmental compliance. Most projects in the construction phase have a sufficient commitment in the revenue stream to assure their full funding by the year of completion.

In both fiscal years 2003 and 2004, there have been reductions to the SYIP. The reductions come after a budget shortage in 2002 that forced the Board to cut the SYIP by \$2.8 billion to \$7.3 billion from original allocation of \$10.1 billion. In June 2004, the Board's annual revision produced a SYIP that is \$1.1 billion less than the \$7.3 billion program approved in 2003. The SYIP allocates \$6.3 billion to study, design, or build transportation over the six-year period beginning July 1, 2004.

One of the primary reasons for the reduction is projections of transportation resources, such as fuels tax, remain flat over the next six years. That, in combination with rising maintenance costs, depletes funding for new highway projects. Maintenance funding has grown from \$482 million in 1986 to \$1.3 billion in 2005 and projected maintenance needs will increase to \$1.5 billion in 2010.

Meanwhile, core construction funding has declined from \$964 million in 1998 to \$792 million in 2005. It will further decrease to \$560 million in 2010. The Board approved the final transportation budget for the next fiscal year. It allocates \$3.1 billion for all transportation costs including maintenance and construction operations and administration, debt payments, and support to ports, aviation, and transit.

Both the VTrans2025 and the SYIP are heavily dependent on Transportation's ability to provide reliable, consistent, and accurate project cost estimates. The planning and the allocation of scarce resources depend on having information that allows the Board to project the Commonwealth's ability to meet its transportation needs. Historically, project cost estimation has lead the Board to approve projects that later proved much more costly than originally intended and grew beyond their original scope.

As discussed above, which and how many projects the Board includes in the six-year plan is subject to having project cost estimates that truly reflect the cost of project over time. This process has been the focus of several studies and reports and will be primarily the subject of our follow-up report discussed earlier. However, because of its importance to the process, we have included a discussion of cost estimation in this report.

Cost Estimation

The second phase of the budgeting process is the projection and estimation of program costs. While consideration of all costs is important, CTF program activity is primarily project-oriented. Therefore, accurately estimating project costs is critical to budget development and monitoring.

Project cost estimation is a process of determining the amount of materials and predicting other costs that are required to complete a project. It should serve as a means to connect the planning of projects to their

execution. In the initial stages, the ability to link potential costs to high level project planning helps to determine the viability of a project. It also provides a means to develop exact specifications and guidelines for projects. Having this ability allows transportation agencies to conduct project advertisements to potential contractors, as well as develop a level of expectation for results. Transportation agencies should use project cost estimation as the link between project execution and budget formulation not only for a particular project, but for transportation as a whole.

Cost Estimation at Transportation

Project cost estimation is in a period of transition at Transportation. Over the past 20 years, the tools used to project costs evolved from contract management systems to actual unit cost estimation. In the 1980s, Transportation began using a cost estimation software package called Trns*Port. This system helps manage projects during various phases of the planning and construction process. With modifications made over time, the system currently has the ability to use historical construction data from Transportation, as well as industry standard costs to develop project cost estimates. In order to produce a reliable estimate, Trns*Port requires detailed engineering and project specifications be used. With this information, the system can supply unit cost estimation for projects including such items as traffic control barrels and tons of concrete. The major weakness to Trns*Port is its inadequate usefulness as a long-range planning tool.

The Commonwealth Transportation Board uses the SYIP as a long-range funding plan for Virginia's transportation system. The SYIP shows the distribution of both actual current year and anticipated five-year allocations for a six-year period to items such as ports, airports, public transportation, and highways. It also includes funding for the interstate, primary, urban, and secondary systems, public transportation, and other federal and state transportation programs.

The SYIP is the implementation plan for all roadway construction projects in the Commonwealth. The Board revises the plan annually to establish construction project priorities throughout the state. When Transportation incorporates a project into the SYIP, plans are often incomplete, full right-of-way costs are not determined, extraordinary engineering requirements are not considered, and other design issues are not completed. Since Trns*Port requires detailed project plans to produce a reliable estimate, this system cannot reliably be used to help estimate project costs and budget needs.

The Auditor of Public Accounts' 2002 *Special Review of the Cash Management and Capital Budgeting Practices in the Virginia Department of Transportation* identified the need for Transportation to ensure that expected project payouts are in line with expected revenues. Transportation is developing a construction project-scoping program that analyzes projects by function instead of by project detail. This system, the Project Cost Estimation System (PCES), takes into account, at the beginning of a project, the estimated levels of service on the roadway and project components instead of individual details.

PCES is a tool that with further development can provide Transportation's Central Office and districts consistent information for developing reliable cost estimates for projects. A follow up of the 2002 special report will look into construction maintenance and cost estimation in further detail.

Cost Estimation at DRPT, Port Authority, and Aviation

Due to their smaller size, DRPT, Port Authority, and Aviation do not maintain large planning and engineering staffs. Planning of projects occur on a case-by-case basis. These agencies frequently contract with architectural and engineering firms to develop project cost estimates. For example, when the Port Authority decides to undertake a project, they provide the firms with general specifications. The firms conduct the extensive work, deciding material usage and labor needs. They provide the Port Authority with the final specifications to decide if the project is feasible. If so, the Port Authority will issue a request for proposal for the project. The goal is that the bids will be under the original estimate, and they often meet that

goal. Most importantly, when the Port Authority receives project proposals, they already have an estimate of project costs.

Cost Estimation at Motor Vehicles

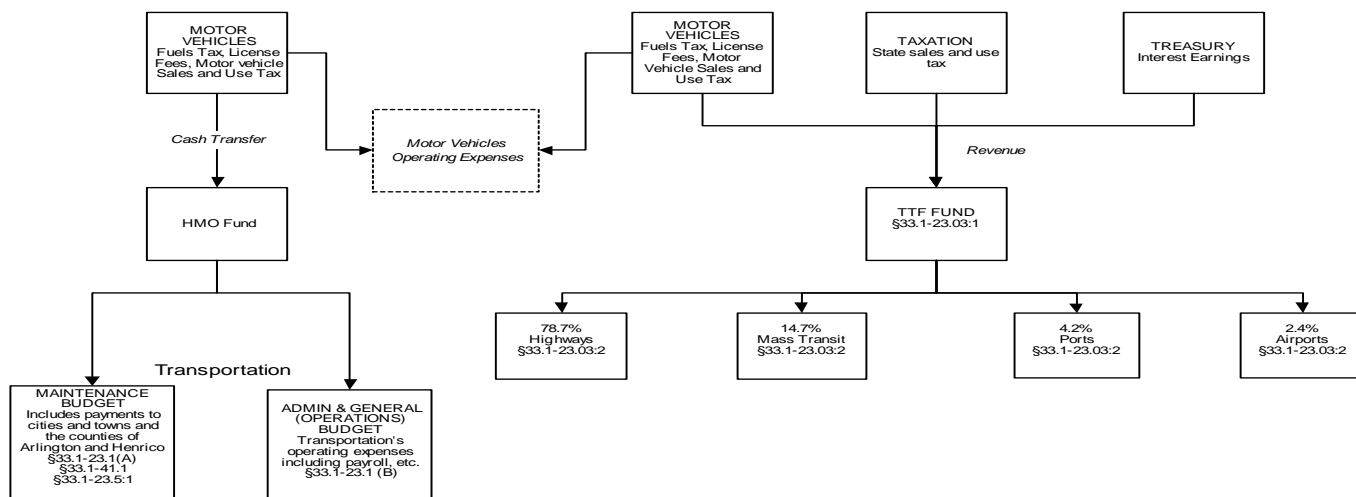
While Motor Vehicles is not a project-oriented agency, its operational costs can have an impact on the funds available for transportation projects. Motor Vehicles has not implemented a formal cost estimation system. The inability to estimate the costs of new programs and changes to old programs has created cash flow shortages at Motor Vehicles. In November 2003, the Auditor of Public Accounts issued a special report on cost analysis at Motor Vehicles. Included in this report were recommendations for improving costing and budget estimation processes at the agency. Motor Vehicles is developing a plan to address these issues, including a new cost accounting structure. If implemented properly, Motor Vehicles will have the ability to estimate exact costs for its customer services and other operating costs. The General Assembly has requested a follow-up report, which will address these cost flow issues in more detail.

Commonwealth Transportation Fund Allocations

Six agencies manage the Commonwealth's transportation system and receive funding from a variety of sources including federal, state, and local revenues. Road construction projects and maintenance budgets require approval of an oversight board. Further, many projects require multiple year funding commitments and relatively few receive funding from a single revenue source. To move transportation projects forward, policy makers must shape comprehensive funding packages.

The flowchart below shows the CTF's sources of revenue and the allocation of these revenues to the various funds. Proceeds from federal grants and bonds go directly to the fund that is entitled to them. Revenues collected by Motor Vehicles and Taxation such as taxes, licenses, and vehicle registrations support both of the Transportation Funds. The Code of Virginia mandates the allocations of revenues. Appendix C illustrates the allocation structure of certain fees and taxes.

HMO Fund allocations provide road maintenance funding, while TTF allocations primarily support road construction. Transportation receives an allocation of 78.7 percent of the TTF revenues collected. The remaining 21.3 percent of TTF allocations provide funding for the Mass Transit, Port, and Airport Funds. Transportation also receives a substantial portion of its highway funding from the Federal Highway Administration (FHWA) in the form of federal grants. Bond revenues primarily come from Federal Revenue Anticipation Notes and several refunding bonds. A detailed flowchart is included in Appendix D.



Commonwealth Transportation Board

The General Assembly established the Board as the State Highway Commission in 1906. Its original mission was to advise the counties, who at that time had responsibility for their roads, on planning, funding, and administrative issues. Today, the Board is primarily responsible for locating routes, approving some construction contracts, creating traffic regulations, naming highways, and administering and allocating funding.

The Governor appoints, and the General Assembly confirms, the 17 members of the Board. The Secretary of Transportation serves as Chairman of the Board and the Commonwealth Transportation Commissioner acts as Vice-Chairman. The Director of DRPT also serves as a non-voting member. The Governor selects one member from each of the state's nine highway districts and five members as at-large members. State law limits Board members to two successive four-year terms, although the Governor may appoint a member to complete an unexpired term who is still eligible to serve two full terms.

Although the geographic district structure is the basis for appointment of nine members, state law assigns all members their duties on a broader basis; that is, they are to represent the state as a whole, not solely the districts from which they are appointed.

Legally-Required Duties

The Code of Virginia classifies executive branch boards as either advisory, policy, or supervisory. The Board is a policy board. Policy boards are statutorily required to disseminate public policies and regulations. The Code of Virginia requires that the statutes governing a board must explicitly describe which powers a board can exercise. Policy boards are not responsible for supervising agencies or employing personnel. For Transportation, all powers not specifically assigned to the Board rest with the Commonwealth Transportation Commissioner. The Commissioner's authority includes undertaking all acts necessary or convenient for constructing, improving, and maintaining the roads in the Commonwealth.

The Code of Virginia specifies the legal powers and duties of the Board. The legislation contains 16 specific powers and duties, which include:

- Location of routes
- Approval of all construction contracts
- Coordination of the planning for financing of transportation needs as provided in Section 33.1-23.03 of the Code of Virginia
- Administration, distribution, and allocation of funds in the TTF as provided by law
- Approval of all maintenance contracts equal to or greater than \$250,000
- Recommendation of Transportation projects to the General Assembly for their consideration at the next session of the General Assembly

The Code of Virginia also requires the Board to conduct a comprehensive review of statewide transportation needs in a statewide transportation plan outlining an inventory of all construction needs for all systems. The Board establishes goals, objectives, and priorities based upon this inventory, covering a 20-year planning horizon in accordance with federal transportation planning requirements. The General Assembly has clearly expressed their intent that the Board establish objective criteria for project selection and prioritization and maintain a statewide transportation focus.

Six general issues and policies affect the funding of CTF projects. These include budgeting and forecasting procedures, available cash and other financing sources, the Commonwealth's debt issuance policy,

project cost estimates and allocations, the crossover for maintenance costs, and the agencies administrative operating costs.

Department of Transportation

The Virginia Department of Transportation (Transportation) builds, maintains, and operates the Commonwealth's roads, bridges, and tunnels. Virginia has the third largest state-maintained highway system in the United States with an annual operating budget of approximately \$3 billion. Transportation maintains over 57,000 miles of interstate, primary, and secondary roads and distributes state funds to help maintain over 10,000 miles of urban streets. Transportation not only maintains roads, but also maintains more than 12,600 bridges, 4 underwater tunnels, 2 mountain tunnels, 3 toll roads, 1 toll bridge, 4 ferry services, 41 rest areas, and 107 commuter parking lots. Transportation has over 9,300 employees, making it one of the three largest state agencies in the Commonwealth.

Transportation's main sources of funding are the HMO Fund and TTF allocations. HMO Funds provide road maintenance funding, while the TTF primarily supports road construction. As reported previously, Transportation receives an allocation of 78.7 percent of the TTF monies collected. Transportation also receives a substantial portion of its highway construction funding from the FHWA in the form of federal grants.

Transportation's funding sources, including the TTF and HMO allocations, totaled over \$2.8 billion. Table 9 illustrates the sources and uses of Transportation's funding.

Table 9

Transportation Resources and Uses

	<u>2004</u>	<u>2003</u>
Resources:		
General Fund appropriations	\$ 122,929,586	\$ 90,604,200
Federal grants and contracts	635,805,292	676,053,316
Taxes	609,984,827	559,870,129
Fees, licenses, and permits	33,405,575	36,540,985
Tolls	56,928,031	54,484,194
Fines and assessments	27,005	49,929
Interest, dividends, and rents	21,829,444	33,009,628
Bond proceeds	4,679,309	1,108,798,854
Other	29,215,724	20,336,695
Receipts from cities, counties, and towns	55,904,551	39,211,218
Transfers	<u>1,239,092,436</u>	<u>816,554,239</u>
Total resources	<u>\$2,809,801,780</u>	<u>\$3,435,513,387</u>
Uses:		
Administrative	\$ 97,581,274	\$ 89,382,052
Highway acquisition and construction	1,226,538,754	1,321,357,380
Highway maintenance	879,460,577	903,346,874
Financial assistance to localities	259,646,782	250,043,039
Toll facilities	37,982,558	31,610,939
Debt service, principal, and interest	223,071,403	175,554,385
Other uses	<u>24,839,085</u>	<u>29,287,428</u>
Total uses	<u>\$2,749,120,433</u>	<u>\$2,800,582,097</u>

Source: Commonwealth Accounting and Reporting System - Cash Basis

Highway Maintenance and Operating Fund

The HMO fund was originally the Commonwealth's only highway fund. The 1986 General Assembly session created the TTF specifically to fund construction improvements for all modals. The HMO's primary function is the funding of highway system maintenance and Transportation's general and administrative expenses.

The Code of Virginia establishes the guidelines for identifying required highway maintenance activities and distributing funds for those activities. The Board must allocate reasonable and necessary funding for maintenance of roads within the interstate, primary, and secondary systems, city and town maintenance payments and counties that have withdrawn or elect to withdraw from the secondary system. For fiscal year 2004, the Board approved \$918 million for Transportation maintenance spending, and a \$250 million distribution to localities for maintenance activities.

While the Code of Virginia prioritizes the maintenance of the existing state highway infrastructure over other activities, including construction, it does not establish specific guidelines relating to the condition of the highway system or any funding. Currently, Transportation develops the maintenance budget solely on historical data and additional needs, which is the previous year's budget plus four percent. However, Transportation is working on a new asset management system to perform needs-based budgeting that sets priorities and distributes resources based on these priorities.

Under the current budget process, the Asset Management Division has the responsibility of allocating funds within the maintenance program. Previously, the Maintenance Program Leadership Group (MPLG) that includes all nine District Maintenance Engineers and a few others had the decision-making authority over the maintenance budget; however, that responsibility has shifted to the Asset Management Division. The MPLG now acts as an advisory group to them. The districts submit their budgets to the Asset Management Division who compiles and makes the initial decision to approve or reject the total budget. The Division then forwards the total budget to the Commissioner and the Board for final approval.

In the past few years, the transfer of TTF funds to the HMO has reached a point known as "Crossover." This is the amount of construction funding required to support basic maintenance and operations activities. A discussion of crossover is included in this report.

Transportation Trust Fund

After funding maintenance expenses as discussed above, the Code of Virginia requires the allocation of the remaining funds for the administration of Transportation and the construction program. To establish the TTF for construction, the General Assembly dedicated certain revenue streams to a special non-reverting fund in 1986. These revenues were increases in existing taxes and fees, with the increase dedicated to the TTF. The largest of these revenue sources, the one-half cent state sales and use tax increase, represented a new source of funding for transportation, while the other tax and fee increases represented increases in existing transportation sources. Unlike the HMO, which is dedicated to highways, the TTF allocates funds to all modes of transportation in Virginia. The current allocation percentages are:

	<u>Percentage</u>
Highways	78.7%
Mass transit	14.7%
Ports	4.2%
Airports	2.4%

Transportation acts as the fiscal agent of the TTF and allocates the revenues as provided in the Code of Virginia. Transportation allocates these revenues before allocating any funds for the highway system.

The process begins with the official revenue forecast for transportation revenues. Once received, Transportation determines the allocation amounts to the various modes using these percentages. Transportation distributes the revenues to the other agencies as they become available throughout the year.

In addition to the 78.7 percent of the TTF, Transportation allocates its federal apportionment to constructing, reconstructing, and improving the interstate, primary, secondary, and urban road systems. The allocation of the construction formula funds is as follows.

40 Percent Primary System - Allocated to each of the nine construction districts based on primary roads by weighted factors of 70 percent for vehicle-miles traveled, 25 percent for lane miles, and 5 percent for the primary road need factor.

30 Percent Secondary System - Allocated to each of the counties based on population and land area by factors weighted as 80 percent for population and 20 percent for land area.

30 Percent Urban System - Allocated to cities and towns by population.

Priority Transportation Fund

The Priority Transportation Fund (PTF), a special non-reverting fund, is a component of the Transportation Trust Fund. Required deposits to the PTF include the following:

- additional revenues attributable to the Virginia Fuels Tax Act;
- Transportation Trust Fund and Highway Maintenance Operating Fund in excess revenues over official estimates; and
- any other appropriations provided by the General Assembly or Governor.

Transportation may only use these funds to finance the priority transportation projects designated in the Virginia Transportation Act (VTA). If they cannot spend the funds on other priority projects, at the Board's discretion, Transportation may re-allocate the funds as needed to meet construction cash-flow needs. The Board then designates funds to projects within a transportation district.

During fiscal year 2004, the PTF received almost \$83 million in General Funds, \$21 million from the Highway Construction Fund, and \$20 million in additional revenues attributable to the Virginia Fuels Tax Act.

Transportation spent over \$76 million in PTF projects for fiscal year 2004. In addition, Transportation transferred approximately \$117 million to fund FRAN debt service and over \$23 million to the Northern Virginia Transportation District and the Route 58 Corridor Development funds.

Crossover

"Crossover" is the point at which maintenance funding takes dollars out of construction. Crossover requires a transfer from the TTF to the HMO fund. Maintenance and general and administrative expenses receive funding first and any excess allocation goes to construction. However, if required, the Board may move funds from the TTF to the HMO fund.

Transportation anticipated the occurrence of crossover for nearly ten years. However, during that time, normal revenue growth far surpassed any projected revenue shortfalls, thereby meeting the maintenance funding needs. This is currently not the case. Transportation experienced crossover beginning in fiscal year

2002. It expects crossover to continue at least through 2010 according to Financial Planning's Six-Year Projection, which the agency presented to the Commonwealth Transportation Board for approval in June 2004. The crossover amount for fiscal year 2003 was \$147.2 million and \$56.9 million for fiscal year 2004; however, over 95 percent of the 2004 funds transferred from construction (TTF) to maintenance (HMO) went unused due to project timing and scheduling.

Currently, crossover occurs because maintenance is not a need-based process and there is no systematic way for Transportation to identify its maintenance needs. Crossover is occurring because Transportation is projecting maintenance expenses to increase four percent each year for the next six years. Transportation performs maintenance work equal to the amount of its budget. Without an accurate system to determine the maintenance needs, Transportation cannot accurately state that their needs are causing crossover.

Options to resolve crossover include reducing spending, increasing revenues, or developing a dependable system to identify maintenance needs. At this time, however, crossover is included as part of the six-year budget process. Transportation is currently developing an asset management system to address this issue. We will discuss the progress on this system in our November 2004 report.

Other Revenue Sources

Transportation accumulates revenues from other sources in addition to the revenues discussed above. These include toll revenues, reimbursements from localities, public/private partnerships, the General Fund and debt.

Toll facilities provide a portion of Transportation's revenues and arise from the operation of three major toll facilities located in Northern Virginia, Central Virginia, and Hampton Roads. The facilities are the Omer L. Hirst – Adelard L. Brault Expressway (the Dulles Toll Road), the Powhite Parkway Extension Toll Road, and the George P. Coleman Bridge. These toll revenues pay the debt service on bonds issued to construct and fund daily operations of these roads.

Localities provide reimbursements for participation projects. Participation projects occur when Transportation performs construction or repair work for localities, who must pay a certain percentage of the construction costs.

The Virginia Public-Private Transportation Act of 1995 (PPTA) authorizes the Commonwealth, its local governments, or other public agencies to enter into agreements allowing private entities to develop, design, construct, maintain, and/or operate transportation facilities if they determine that private involvement would provide the facilities in a timely and cost-effective manner. The PPTA permits private entities to submit unsolicited proposals, as well as proposals solicited by public entities.

The PPTA has a four-phase submission and evaluation process. The first phase is the submission of a conceptual proposal for a prequalification review conducted by an Initial Review Committee. Phase two includes the review and approval/rejection of the conceptual proposal by the Board. Phase three of the evaluation process consists of scheduled submission of a detailed proposal for evaluation and recommendation by the Public-Private Transportation Advisory Panel. Finally, phase four is the selection of the proposal by the Commonwealth Transportation Commissioner.

To assure opportunity for full and open competition, the receiving agency must publish notice of receipt of any unsolicited conceptual proposal, after which other private entities may submit competing conceptual proposals for the agency's consideration. Transportation issued these implementation guidelines to facilitate the selection of transportation privatization projects.

The Board has approved the following projects:

Active PPTA Projects

Route 28 - Northern Virginia area
Route 288 - Richmond area
Coalfields Expressway - Bristol area

Jamestown 2007 - Hampton Roads area
Route 58 - Salem area
Dulles Rail - Northern Virginia area

Completed PPTA Project

Pocahontas Parkway (Route 895) - Richmond area

The Pocahontas Parkway (Route 895) is a toll road connecting I-95 and I-295 east of Richmond International Airport, and the first construction project approved under the PPTA. To finance the project, the Pocahontas Parkway Association (PPA), a not-for-profit corporation, entered into a partnership between Transportation and the private sector. PPA issued \$354 million in tax-exempt bonds that would use Parkway tolls to repay the bonds.

The Commonwealth is not legally responsible for these bonds, even though it owns and operates the road. However, for accounting and financial reporting purposes, the PPA is a blended component unit of the Commonwealth.

As of June 2004, actual traffic using the facility averaged about 98,000 vehicles per week, which is approximately 50 percent of the initial forecast. The PPA's accumulated deficit increased to \$115.1 million in fiscal year 2004 from \$75.3 million in fiscal year 2003. Expenses, including debt service, operating, and a transfer to the Capital Cost Savings Account, exceeded revenues by \$39.8 million.

Debt

Transportation also uses various debt to finance roads and issues debt instruments in accordance with the Constitution of Virginia. Most of Transportation's debt has a dedicated revenue stream used to pay debt services with a significant portion of debt secured by future federal reimbursements and is referred to as Federal Revenue Anticipation Notes (FRANS) – Securitized Federal Reimbursements.

CTB has not had to develop an overall debt issuance policy, with the exception of FRANS. As indicated earlier, most of the debt has had a dedicated revenue stream to pay debt services. Classically most of the original debt was toll road facilities with the toll paying debt service. Currently, Transportation operates as the fiscal agent of these facilities and we discuss the individual projects later in this report. However, in the past two decades, Transportation has begun entering into agreements with special districts to enhance transportation systems within the geographical boundaries of these districts. Following is a discussion of these districts and their financing.

Table 10

Transportation Debt - June 2004

<u>Program</u>	<u>Outstanding Debt</u>	<u>Fiscal Year 2005 Debt Service</u>	<u>Year Paid Off</u>
Oak Grove Connector	\$ 26.8	\$ 2.3	2022
Powhite Parkway Extension	36.1	6.2	2011
Coleman Bridge	38.8	3.5	2021
Dulles Toll Road	54.2	11.4	2016
Route 28	113.5	7.5	2018
NOVA Transportation District Program	330.9	28.0	2027
Route 58 Corridor Program	586.3	50.8	2026
FRANS	<u>786.7</u>	<u>136.5</u>	2012
Total	<u>\$1,973.3</u>	<u>\$246.2</u>	

Source: VDOT
in millions

Transportation's bonds fund a variety of diverse projects, including State Route 28, the U.S. Route 58 Corridor, the Northern Virginia Transportation District Program and the Oak Grove Connector (Chesapeake). All of these projects represent specific geographical areas with identified transportation project needs and the citizens and governing bodies were willing to commit a portion of current and future revenue streams to fund these projects.

The State Route 28 bonds are limited obligations of the Commonwealth that require payments of debt service from a local dedicated revenue stream not controlled or imposed by Transportation. A special tax, recommended by the State Route 28 Highway Transportation Improvement District to the localities, imposes a tax on individuals and businesses in the District. In addition, the locality allocations as well as any other legally available money from the TTF are additional sources to pay debt service on the bonds.

The U.S. Route 58 Corridor Revenue Refunding Bonds, Series 2002B, depend on future appropriations, requested by the Transportation Board, of the recordation tax collected in the U.S. Route 58 Corridor Development Fund, which is a component of the TTF. Secondary sources for debt service include other legally available funds from the TTF and appropriated from the General Assembly. These bonds fund projects to upgrade and improve U.S. Route 58 over the length of Virginia.

The Northern Virginia Transportation District Program Bond Act of 2003 authorizes the Northern Virginia Transportation Authority to issue bonds in an aggregate principal amount not to exceed \$1 billion to complete and implement certain transportation projects included in the approved plan. The plan includes the following construction projects:

- Route 15 Leesburg Town Line
- Fairfax County Parkway
- Route 1/Route 123 Interchange
- Route 123 Widening Occoquan, Occoquan River Bridge and improvements in Fairfax County
- Route 7 Loudoun and Fairfax counties
- Route 28 Parallel Roads and 625 interchange improvements in Loudoun
- Route 234 Bypass

The debt service will come from several revenue sources, including dedicated state and local revenues, such as the state recordation tax collected in the affected cities and counties and the public right-of-way use fees collected in Fairfax, Loudoun, and Prince William.

The Oak Grove Connector is 2.5-mile 4-lane limited access roadway that connects I464 to VA-168. The official opening of the Connector occurred in July 1999. Transportation Program Revenue Bonds financed the construction of the Oak Grove Connector. Sources for debt service include state recordation tax and local revenues collected in the city of Chesapeake and local general revenues.

FRANS have a dedicated revenue stream to pay debt services and unlike other debt, this debt does not relate to a specific geographical area. Transportation issues FRANS to finance various capital transportation projects throughout the Commonwealth pursuant to the Virginia Transportation Act of 2000 (VTA). The notes have a ten-year maturity and commit future appropriations of future Federal Highway Administration reimbursements.

At June 30, 2004, Transportation had outstanding \$139 million in general obligation bonds, \$1.8 billion in revenue bonds, \$306.1 million in Series 2000 FRANS, and \$480.5 million in Series 2002 FRANS.

Debt issuance policy

The Auditor of Public Accounts' July 2002 *Special Review of the Cash Management and Capital Budgeting Practices in the Virginia Department of Transportation* recommended that Transportation and the Commonwealth Transportation Board establish a debt issuance policy for FRAN's, including how and when to issue them, and create an overall debt capacity model. Based on those recommendations, on November 20, 2003, the Board adopted a debt management policy and capacity model for issuing FRAN's. The model limits FRAN maturity to ten years and debt service to 25 percent of the average federal reimbursements for the prior six years. All other Transportation debt is included in the existing capacity model and follows the Commonwealth of Virginia's debt management policy. The Debt Capacity Advisory Committee also reviewed and approved the debt management policy and capacity model in December 2003, as did the General Assembly.

The purpose of the Board's debt policy is to establish the level of indebtedness the Commonwealth Transportation Board can reasonably expect to incur without jeopardizing its existing credit ratings and to ensure the efficient and effective use of debt financing of the Board's transportation infrastructure development program. As such, the Board uses the debt policy with the approved budget, the Six-Year Improvement Program (SYIP), and the official revenue forecast.

Transportation's Innovative Finance and Revenue Operations division, along with the Public Resources Advisory Group (a private financial advisor) and Department of Treasury staff, worked to develop the debt management policy and capacity model. The overall intent of the policy is to ensure that the Board debt maintains its current credit rating. The policy will also guide Transportation and the Board in determining the timing, size, and debt structure of future FRAN issues.

Department of Motor Vehicles

Motor Vehicles is the primary collector of funding to support transportation programs in the Commonwealth. The agency funds its operations by retaining a portion of revenues collected and obtaining federal grants for agency-specific programs. The percentage of collections kept by Motor Vehicles varies by operations and purpose of collections. The Code of Virginia establishes the distribution and use of funds. In addition, the Governor's Budget and actions of the General Assembly may also restrict and limit Motor

Vehicles' use of the collections retained. The amount retained by Motor Vehicles is approximately 8.0 percent of every dollar collected in each of the past two fiscal years.

Motor vehicle registration fees, vehicle title fees, driver license fees, record fees, and reserved license fees are the primary collections, which in turn produce the highest sources of revenue for operations. Motor Vehicles places its portion of the revenue in a special fund titled, "Motor Vehicles Special Fund." Management uses the resources out of the Motor Vehicles Special Fund to administer the programs and to meet statutory requirements. Motor Vehicles' major expenses are personal services, postage, information technology, telecommunications, license plates, equipment, and plant rentals.

Motor Vehicles collects revenues from a variety of activities including fuels and road taxes, licensing and registration fees. The Code of Virginia mandates the allocation and use of all collections. Motor Vehicles retains a portion of the revenues it collects for operational costs, but transfers the majority of the funds collected to the TTF and HMO.funds. Table 11 illustrates the total sources and uses of funds.

Table 11

Sources and Uses of Funds

	<u>2004</u>	<u>2003</u>
Sources:		
Federal grants and contracts	\$ 11,655,801	\$ 13,995,921
Taxes	1,160,523,630	1,097,102,781
Fees, licenses, and permits	377,013,953	357,318,112
Fines and assessments	24,471,842	28,160,716
Interest, dividends, and rents	14,974	3,105
Other	326,123	1,169,776
Transfers	<u>(1,365,965,018)</u>	<u>(1,307,312,537)</u>
Total sources	<u>\$ 208,041,305</u>	<u>\$ 190,437,874</u>
Uses:		
Administrative	\$ 35,052,138	\$ 37,016,967
Vehicle and driver regulation administration	125,849,219	117,353,427
Financial assistance to localities	36,324,717	36,581,855
Other uses	<u>8,170,166</u>	<u>8,084,507</u>
Total uses	<u>\$ 205,396,240</u>	<u>\$ 199,036,756</u>

Source: Commonwealth Accounting and Reporting System - Cash basis

The fuels tax collection process at Motor Vehicles generates over \$738 million in revenues. Over the past three years, we have found deficiencies in the processing and resolution of discrepancies in the collection process. Motor Vehicles has made significant progress towards resolution of these issues; however, issues still remain that require resolution. Our finding is included in the "Findings and Recommendation" section later in this report.

Virginia Port Authority

The Port Authority is the Commonwealth's agency for international transportation and maritime commerce. The Port Authority's major activities are developing Virginia's ports through cargo solicitation and promotion throughout the world; developing water transportation facilities; maintaining ports, facilities,

and services; providing public relations, and domestic and international advertising; and providing security services. To deliver these services, the Port Authority has offices in five cities in the United States and five foreign countries. A Board of Commissioners composed of 12 members manages the Port Authority. The Commonwealth Transportation Board only oversees the allocations to the Commonwealth Port Fund. The Port Authority Board of Commissioners is the oversight board to the Port Authority.

The agency owns four general cargo terminals in Virginia that enables them to foster and stimulate the commerce of the Commonwealth ports. This includes promoting the shipment of goods and cargo through the ports, seeking to secure necessary improvements of navigable tidal waters within the Commonwealth, and performing any act or function that may be useful in developing, improving, or increasing the commerce, both foreign and domestic, of the Commonwealth ports.

Virginia International Terminals, Inc. (VIT), a separately incorporated nonprofit corporation operates all of the marine terminals owned by the Port Authority. VIT is a discrete component unit of the Port Authority and other independent auditors audit its financial statements. Virginia Port Properties, Inc. (VPP), also a separately incorporated nonprofit corporation, manages all foreign leases on behalf of the Port Authority. The activities of VPP are subject to an annual financial audit of the Port Authority performed by the Auditor of Public Accounts.

The Port Authority does not receive General Fund appropriations, but generates revenue from port operations (i.e., special revenues). In fiscal year 2004, the Port Authority received \$38.5 million in the form of rental income, interest income, and cash transfers from VIT's net cash flow. Of this special revenue, the Port Authority used \$29.8 million for operations, including general operating expenses, certain debt service expenses, and some acquisition, construction or improvements of major capital facilities. The Port Authority used the remaining revenue to fund required increases in reserve accounts and transferred a portion back to VIT for additional capital needs. Other resources include capital contributions from VIT in the form of leasehold improvements made at the terminals, which totaled \$10.1 million in fiscal year 2004.

Since the Authority is a component unit of the Commonwealth, the related financial activity is not included in this report. We issue a separate report on the financial statements of the Virginia Port Authority.

Commonwealth Port Fund

The Port Authority receives 4.2 percent of the TTF, which funds the majority of the Port Authority's capital projects. The Port Authority also uses the TTF revenue for operational maintenance, related to capital projects, but not capitalizable; aid to local ports; payments in lieu of taxes to localities; and debt service payments related to capital projects. The Port Authority's capital projects essentially include maintaining and expanding the existing ports, wharfs, and related facilities.

In fiscal year 2004, the Port Authority received revenues of \$32.7 million from the TTF through the Commonwealth Port Fund. With this revenue and remaining funds from fiscal year 2003, the Port Authority incurred \$858,000 in payments in lieu of taxes to localities; \$4.0 million for port maintenance expenses; \$5.0 million for port development; \$23.0 million for debt service expenses; and transferred \$851,000 to the General Fund. Funds remaining in the Port Fund at the end of each fiscal year do not revert to the Commonwealth, but remain with the Port Fund for future needs.

Port Authority Debt

The Port Authority had a balance of \$356.3 million in long-term debt, excluding current maturities at fiscal year end. Of this amount, \$346 million is in the form of revenue bonds issued by the Port Authority. The 4.2 percent allocation of the TTF and a sum sufficient appropriation from the Commonwealth supports

the 1996, 1998, and 2002 Commonwealth Port Fund Revenue bonds. Terminal revenues and insurance policies support the 1997 and 2003 Port Facilities Revenue bonds.

Department of Rail and Public Transportation

An amendment to the Code of Virginia, effective July 1, 1992, established the Department of Rail and Public Transportation (DRPT) as a separate agency. Prior to this date, DRPT was a division of Transportation. DRPT reports to the Secretary of Transportation and is subject to the policy oversight of the Commonwealth Transportation Board (The Board). There is a discussion of the Board's role in transportation agencies earlier in this report.

DRPT's primary responsibility is to determine the present and future needs for, and economic feasibility of providing public transportation, transportation demand management, and ridesharing facilities and services and the retention, improvement, and addition of passenger and freight rail transportation in the Commonwealth. They accomplish this by developing and implementing programs; coordinating research, planning, and policy analysis efforts with Transportation, and developing standards to evaluate all public transportation activities in the Commonwealth.

Additionally, DRPT maintains liaisons with state, local, district, and federal agencies or other entities, private and public, having responsibilities for passenger and freight rail, transportation demand management, ridesharing, and public transportation programs. This includes coordinating efforts with other entities and managing public, freight rail, and passenger transportation grant programs.

DRPT's primary sources of funding are allocations from the HMO fund and through the TTF, as well as federal grants. The HMO fund supports the state match requirement, Washington Metropolitan Transit Regulation Compact, and the administrative budget. Allocations from the TTF are a major revenue source for the Department. DRPT receives federal grants from the Transportation Equity Act for the 21st Century (TEA-21) Flexible Funds, the Federal Railroad Administration, and the Federal Transit Administration.

DRPT manages their own administrative functions, such as grants management and fiscal operations. However, as mandated by the Acts of the Assembly Chapter 167, Transportation provides all administrative, research, policy analysis, planning, right-of-way acquisition, and such other services to DRPT. There is no cost for normal services, but any substantial expansion of these services shall be the financial responsibility of the requesting agency.

Table 12

Sources and Uses of Funds

	<u>2004</u>	<u>2003</u>
Sources:		
Federal grants and contracts	\$ 16,765,592	\$ 15,941,990
Taxes	109,410,893	104,041,914
Fees, licenses, and permits	3,003,363	2,868,583
Fines and assessments	4,120	8,340
Interest, dividends, and rents	753,456	1,523,931
Other	981	2,272
Receipts from cities, counties, and towns	354,987	473,454
Transfers	<u>30,599,805</u>	<u>48,959,243</u>
Total sources	<u>\$160,893,197</u>	<u>\$173,819,727</u>

Uses:

Administrative	\$ 1,286,781	\$ 1,169,634
Rail and public transportation	<u>158,723,446</u>	<u>153,245,665</u>
Total uses	<u>\$160,010,227</u>	<u>\$154,415,299</u>

Source: Commonwealth Accounting and Reporting System - Cash basis

Appropriations for rail and public transportation projects have steadily increased. In fiscal year 2004, DRPT received appropriations of approximately \$146 million. The 2004 Virginia Acts of the Assembly appropriates \$163 million and \$260 million in fiscal years 2005 and 2006, respectively. This increase in funding creates an increase of responsibility for the Department's administrative functions. Our review of DRPT indicated a lack of fiscal oversight and internal controls. A discussion of this weakness follows in "Findings and Recommendations" section of this report.

Commonwealth Mass Transit Fund

DRPT receives 14.7 percent of the TTF and allocates this share according to the Code of Virginia, Section. 33.1-23.03:2. DRPT transfers these funds to aid the mass transit systems throughout the state using the following allocation:

- 73.5 percent for urban and non-urban areas that fund public transportation systems for operating related expenses such as administration, fuels, lubricants, tires, maintenance parts, and supplies under a distribution formula using total operating expenses;
- 25.0 percent for capital purposes based on eligible capital expenses less any federal assistance received. Capital expenses include items such as replacement buses or rail cars, stop signs, and construction of terminals and stations; and
- 1.5 percent for special projects such as ridesharing, experimental transit, and technical assistance. Ridesharing programs are to support existing or new local and regional Transportation Demand Management programs. Experimental funds assist communities in preserving and revitalizing public or private public transportation service by implementing innovative projects for one year of operation. Technical Assistance support planning or technical assistance to help improve or initiate public transportation services.

Dulles Corridor Metrorail Project

On June 11, 2004, the Commonwealth entered into a PPTA contract with Dulles Transit Partners LLC to engineer, design, and construct the Dulles Corridor Metrorail Project. The project includes an extension of Metrorail along the Dulles Corridor between the existing Metrorail Orange Line near the West Falls Church station in Fairfax County, Virginia, to Route 772 in Loudoun County, Virginia. The corridor encompasses several activity centers, including Tysons Corner, Reston, Herndon, and Washington Dulles International Airport, as well as the emerging activity center in eastern Loudoun County.

DRPT, as the project sponsor, is responsible for the project schedule and budget. The Department has assembled its own project team located in Northern Virginia to carry out DRPT's responsibilities on the project. DRPT will receive technical support from the Washington Metropolitan Area Transit Authority

(WMATA) with the engineering and construction on this project. The project is complex and includes preliminary engineering, real estate acquisition, procurement actions, construction, vehicle acquisition, start-up and testing, and system integration into the WMATA operating system.

The project will have two phases, with Phase 1 scheduled for completion in 2011 and Phase 2 scheduled for completion in 2015. The preliminary estimate for Phase 1 is approximately \$1.5 billion of which 25 percent of the capital costs will be state funds, 50 percent federal and 25 percent from Fairfax County. Phase 2, when approved by the Federal Transit Administration (FTA), will be funded in a similar arrangement: 25 percent state funds, 50 percent federal funds, and 25 percent from local funding.

The local funding partners for the project include jurisdictions and related public agencies that will benefit from the project. These partners have agreed to contribute a portion of project costs. The FTA, the Commonwealth, and Fairfax County will provide capital funding for Phase 1 of the project. Funding for the capital costs of Phase 2 of the project will come from the FTA, the Commonwealth, Fairfax County, Loudoun County, and Metropolitan Washington Airport's Authority. WMATA and member jurisdictions will be responsible for the operation and maintenance of the system.

Department of Aviation

Aviation plans and promotes air transportation in the Commonwealth; licenses aircraft and airports; and funds local airport planning, development, and improvements. The Commonwealth Transportation Board does not provide oversight to Aviation. Their role is ensuring the appropriate allocations occur from the TTF. It is the function of the Aviation Board to monitor policies and programs of the Department, promulgate regulations necessary to promote and develop safe aviation practices, and allocate funds to localities for aviation development.

Aviation consists of the Director's Office and four divisions: Airport Services, Public Relations and Promotion, Flight Operations and Safety, and Finance and Administration. Aviation provides financial and technical assistance to eligible sponsors for the planning, development, promotion, construction, and operation of airports and aviation facilities. It administers applicable provisions of the Code of Virginia, plans for the development of a state aviation system, promotes aviation, and licenses aircraft, airports, and landing areas. Aviation also provides air transportation services to the Governor, the Legislature, and state agencies.

As illustrated in Table 13 below, Aviation receives the majority of its funding from the 2.4 percent of the TTF allocation to the Commonwealth Airport Fund. Aviation's other primary revenue sources are from the collection of aviation fuels taxes and Virginia aircraft sales and use taxes. These revenues, in addition to the TTF allocation, pay Aviation's administrative expenses and provide funding to local airport improvements, maintenance, airport system planning, regulation, and safety.

Table 13

Sources and Uses of Funds

	<u>2004</u>	<u>2003</u>
Sources:		
General Fund appropriations	\$ 48,137	\$ 40,298
Federal grants and contracts	90,570	294,519
Taxes	27,412,453	24,796,835
Fees, licenses, and permits	579,284	550,589
Fines and assessments	673	1,362
Interest, dividends, and rents	340,521	1,020,036
Other	3,613,573	7,018,122
Transfers	<u>(3,616,742)</u>	<u>(8,740,890)</u>
Total sources	<u>\$28,468,469</u>	<u>\$24,980,871</u>
Uses:		
Administrative	\$ 708,059	\$ 712,750
Aviation	<u>20,145,569</u>	<u>32,049,332</u>
Total uses	<u>\$20,853,628</u>	<u>\$32,762,082</u>

Source: Commonwealth Accounting and Reporting System - Cash basis

Commonwealth Airport Fund

Aviation receives 2.4 percent of the Commonwealth's TTF and follows the statutory requirements for its allocation. By statute, Aviation must commit 40 percent of those funds as entitlement payments to air carrier airports, 40 percent to air carrier and reliever airports on a discretionary basis, and 20 percent to general aviation airports on a discretionary basis. Air carrier airports, with the exception of those owned or leased by Metropolitan Washington Airport Authority, receive an allocation of funds based upon the percentage of enplanements for each airport to total enplanements at all carrier airports, with a maximum of \$2 million and a minimum of \$50,000 per year. Air carrier, reliever, and general aviation airports must apply for discretionary funds. Aviation evaluates, prioritizes, and submits recommendations for allocation of the discretionary funds to the Virginia Aviation Board for final revision and approval. The Aviation Board allocates the discretionary funds and carries forward any uncommitted funds from the current fiscal year to the next fiscal year for future projects.

Aviation World's Fair

In October 2002, the Secretary of Transportation announced that the Commonwealth would suspend all financial support for the Aviation World's Fair planned in Newport News for April 2003. Decisions to discontinue the event were supported by the Commonwealth's discovery that the event planner was unable to reach minimum goals for advance ticket sales, to sign sponsors for the event, and generate significant exhibitor revenues.

The Virginia Resources Authority granted a loan to the Virginia Aviation Board for \$6.6 million. Upon suspension of financial support for the Aviation World's Fair, Aviation analyzed capital projects

planned for Newport News-Williamsburg International Airport. Aviation determined that construction up to that point was not specific to the Aviation World's Fair event, and benefited the airport. Therefore, the majority of construction at Newport News-Williamsburg International Airport continued. Aviation decided not to begin any remaining construction projects that were specific to the Aviation World's Fair event. Instead, they decided to use the remaining funds to defease a portion of the debt.

During fiscal year 2003, Aviation entered into an escrow deposit agreement with Wells Fargo (now Wachovia) as trustee. Aviation placed \$3.2 million in escrow. Wells Fargo invested the escrow according to the agreement and makes payments towards the loan. Aviation is still making payments on the undefeased balance. The last scheduled payment will occur in 2017.

Motor Vehicle Dealer Board

The General Assembly created the Dealer Board effective July 1, 1995, to regulate motor vehicle dealers and salespersons. Previously, Motor Vehicles had this responsibility. The Dealer Board's regulatory powers and responsibilities include testing, issuing licenses and certificates to dealers and salespersons, developing regulations, conducting inspections, and responding to complaints concerning licensed dealers and salespersons. The Dealer Board can invoke disciplinary actions including, but not limited to, revoking licenses or certifications and assessing civil penalties for regulatory violations.

A 19-member board governs operations and sets dealer and salesperson fees that support daily activities. The Motor Vehicles Commissioner serves as Chairman and the Commissioner of Agriculture and Consumer Services also serves on the Dealer Board. The Governor appoints the remaining members to staggered terms. Dealer Board members represent franchised and licensed dealers, the rental and salvage industries, and consumer interests.

Motor Vehicles provides administrative and fiscal services for the Dealer Board, which receives no General Funds. Certification and licensing fees accounted for \$1,576,559 of fiscal 2004 revenue of \$2,065,735, and dealer license plate fees provided \$241,748.

The Dealer Board employs 20 full-time and 5 part-time staff who investigate dealer compliance and complaints against dealers; process dealer applications and renewals; respond to consumer complaints; monitor advertising; and perform other administrative and supervisory functions.

Motor Vehicle Transaction Recovery Fund

The Dealer Board also administers the Motor Vehicle Transaction Recovery Fund to compensate consumers who have judgments against licensed dealers or salespersons for violations of regulations or fraudulent activity related to a vehicle transaction. The fund is restricted from use for any other purpose. The Code of Virginia limits recovery to retail purchasers of vehicles and to licensed or registered dealers or salespersons who pay into the fund.

To finance this fund, newly licensed dealers pay \$250 annually for three years. After three years, annual fees are no longer required. Dealers located in another state who want to do business in Virginia pay \$60 annually. In addition, dealers and salespersons may pay individual annual fees ranging from \$10 for a salesperson to a maximum of \$100 for a dealer. The Code of Virginia sets fee amounts while granting the Dealer Board the authority to suspend or reinstate fees.

For the past three years, revenues have exceeded claim payments in the Motor Vehicle Transaction Recovery Fund; however, the fund balance has decreased. A \$4.2 million transfer to the General Fund in fiscal year 2003 accounts for most of the decrease.

Table 14

Motor Vehicle Transaction Recovery Fund Activity

Balance at July 1, 2001	\$ 4,141,682
Fiscal year 2002:	
Revenue	404,791
Claim payments	119,551
Transfers	<u>(37,000)</u>
Net increase	248,240
Fiscal year 2003:	
Revenue	379,147
Claim payments	125,902
Transfers	<u>(4,234,922)</u>
Net decrease	(3,981,677)
Fiscal year 2004:	
Revenue	229,804
Claim payments	<u>124,753</u>
Net increase	<u>105,051</u>
Balance at June 30, 2004	<u><u>\$ 513,296</u></u>

FINDINGS AND RECOMMENDATIONS

Department of Transportation

Ensure Compliance with COV ITRM Standard SEC 2001-01.1

The Virginia Department of Transportation (Transportation) has not reviewed and updated the agency's risk assessment and business impact analysis in accordance with the Commonwealth of Virginia's Information Technology Policy SEC 2001-01.1. This policy states that agencies should review and update the business impact analysis and risk assessment as needed, but at minimum, the agency must do a review and update every three years or when they have a significant change in critical systems. The agency has not performed these actions since March 2001.

During the past year, Transportation transitioned their information systems to the Virginia Information Technologies Agency (VITA). Transportation has encountered common misunderstandings as to who has responsibilities for their information systems and security during and after the transition. Agency management for both VITA and Transportation still have areas of uncertainty about their comprehensive responsibilities. Transportation must work with VITA to establish written policies that define the detailed duties and responsibilities of each party. The two agencies should develop a comprehensive best practice model and establish an agreement that addresses each one of those practices.

Currently, Transportation has the responsibility to maintain and update the risk assessment and business impact analysis. However, the agency has shifted a large number of their knowledgeable personnel to VITA during the transition process. Transportation has produced a Continuity of Operations Plan (COOP), which provides some coverage in the area of risk assessment, but this does not address the business impact analysis.

Transportation must review and update the agency's risk assessment and business impact analysis to identify all aspects of the business that are confidential and critical to the agency and help identify and evaluate the potential security threats and risks that are associated to resources new to the business since March 2001. Performing these procedures will help determine if current safeguards are relevant and adequate, and then update them accordingly.

Improve Policies and Procedures for Security Controls on the PeopleSoft/FMSII and UNIX Systems

Transportation has general written policies and procedures for maintaining security controls on the various systems in use at Transportation; however, the policy does not specifically address the PeopleSoft/FMSII and UNIX systems.

A review of general IT controls revealed that there are several administrative functions, both performed and unperformed, that are not documented in the current IT policy. Transportation should develop a policy that includes specifications for maintaining security controls for these systems.

These documented policies and procedures would allow Transportation to maintain proper administration of their systems. Specific policies and procedures provide direction on establishing what controls management deems necessary and therefore, what restrictions to impose for the system. Failure to implement proper policies and procedures could lead to improper controls placed on the system and allow for unauthorized access, placing the integrity and completeness of the data stored on the system at risk.

We recommend that Transportation implement specific policies for the proper administration of these systems as soon as possible and follow these procedures for maintaining security of the systems. This is especially important at Transportation, given the enormous amount of activity dependent on these systems.

Department of Motor Vehicles

Assess Needs and Develop Policies and Procedures over the Fuels Tax Program

Effective January 1, 2001, the Virginia Fuels Tax Act imposed new regulations concerning the timing of fuels tax collections within the Commonwealth. The Act changed the tax payment due date based on fuel issued at the terminal rack (“Tax at the Rack”) rather than at the distributor level.

With the change to “Tax at the Rack,” Motor Vehicles implemented a new automated system, the Motor Fuels Tracking System (MFTS), to track the collection and reporting of motor fuels tax. We reviewed the MFTS processes and the critical automated and manual internal control components over the system. Our 2002 and 2003 audit reports included management recommendations regarding several internal control weaknesses in the fuels tax collection and reporting processes.

These recommendations addressed several important issues that could adversely affect fuels tax revenue collections and reporting efficiency.

- As previously reported, Motor Vehicles lacked formal policies and procedures addressing transactions processed on the system by employees within the Fuels Tax division. Policies and procedures provide essential information for user reference, efficiency of operations, and general knowledge over the system.

During the past year, the Fuels Tax Division at Motor Vehicles began outlining formal policies and procedures based on the Code of Virginia. We recommend that Motor Vehicles complete the development and approval process of these policies and procedures. Once completed, all fuels tax personnel should receive training to ensure understanding and compliance of fuels tax processes.

- The fuels tax system at Motor Vehicles does not provide reliable system-generated reports. The lack of reliable reports created additional manual processes relating to accounts receivable, non-filers, and discrepancies.

During the past year, Fuels Tax personnel has been working with the system vendor, ACS, to design, implement, and test, functional system-generated reports. In addition, the Fuels Tax division has developed a plan and committed the resources to reduce historical discrepancies. To ensure resolution, the efforts to develop reliable reports and the dedication of resources to prioritize and reconcile past discrepancies must continue.

- Fuels Tax management at Motor Vehicles should reduce the use of manual processes to obtain important fuels tax information. These manual processes are an inefficient use of resources and increase the possibility of errors in reporting.

The final implementation of mandatory electronic filing will begin in July 2005. This migration to electronic filing has significantly reduced the data entry process. Also, as mentioned above, Motor Vehicles has begun to work with ACS to develop useful system-generated reports. However, it is important that Fuels Tax personnel review and, when necessary, redesign their processes to maximize the capabilities of the fuels tax system.

The proposed corrective action plan, if completed, will address the major deficiencies in the fuels tax collection and reporting processes. Successful completion of this plan will require the support of Motor Vehicles' management through the investment of resources and monitoring the plan's progress.

Strengthen Controls over Access to the Commonwealth Accounting and Reporting System

The Director of Internal Audit Department has held level 6 access to the Commonwealth Accounting and Reporting System (CARS) for over two years. Level 6 access allows a user update capability and is not required for the responsibilities of this position. If CARS access is necessary to perform audit testwork, the access should be limited to level 5, Agency Inquiry.

It is the responsibility of the agency to ensure that adequate internal controls exist within that agency to prevent unauthorized access to online CARS data. Access controls must be monitored to ensure the integrity of accounting transactions submitted through CARS. Management should ensure appropriate system access controls are in place and operating effectively. Appropriate system access should depend on position and responsibilities. Unnecessary update access in CARS increases the risk of unauthorized changes and misuse of the CARS system.

Department of Rail and Public Transportation

Strengthen Internal Controls in the Budgeting and Accounting Support Functions

In order to meet the increasing demands for service, react to budget reductions, and minimize administrative costs, management must consider the nature and design of support services. The Department of Rail and Public Transportation (DRPT) is a relatively small agency with 44 authorized positions; however, these individuals had responsibility over appropriations of \$154 million in fiscal year 2004, and their budgeted appropriations will increase by fiscal year 2006 to \$260 million, a 68 percent increase.

Our review of DRPT's processes identified internal control weaknesses in the budgeting and accounting support functions. Over the past year, DRPT lost several key support personnel, including the Controller. Management is in the process of filling these positions and determining the level of staffing needed to support agency operations.

We recommend DRPT management consider partnering with another larger or several smaller agencies to obtain support services. Maintaining internal controls and knowledgeable and experienced staff, and ensuring the continuation of operation is difficult when staffing levels are low. Additionally, having in-house staff is not always cost ineffective, but represents a burden on management to continuously train and oversee these functions. This diverts resources from the agency's primary service delivery functions, grants management, and budgeting.

Over the past several years, a number of agencies similar in size to DRPT, including the Governor's Office, have moved to sharing administrative support functions. These functions include accounting, payroll, purchasing, and some personnel functions, which allows the agency to concentrate on its primary mission.

In our opinion, DRPT management should pursue the option of sharing support functions with another agency or agencies rather than incurring the cost of hiring, training, and internally managing all of these functions. Not following this option, we believe, will require management to conduct an extensive review of its internal control systems and overall support activities. We do not believe that solely replacing the Controller will provide the appropriate level of expertise and knowledge to assist an agency of this complexity. Rather, sharing support resources will give management greater flexibility and allow the agency to focus on grants management and budgeting.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

October 15, 2004

The Honorable Mark R. Warner
Governor of Virginia
State Capital
Richmond VA

The Honorable Lacey E. Putney
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, VA

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

We have audited the financial records and operations of the **Agencies of the Secretary of Transportation** for the year ended June 30, 2004. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the agencies' internal control, and test compliance with applicable laws and regulations.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of operations. We also tested transactions and performed such other auditing procedures, as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

- Revenue and Receivables (taxes, vehicle registrations, licenses)
- Transportation Trust Fund Activity (collections, allocation, expenses)
- Long-Term Debt
- Federal Grants and Contracts
- Expenses and Payables, including Payroll

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations.

The transportation agencies' management has the responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. In addition, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

Audit Conclusions

We found that the agencies properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The agencies record their transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted certain matters involving internal control and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the agencies' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records. Reportable conditions are included in the section entitled "Findings and Recommendations." These conditions include:

Virginia Department of Transportation

- Ensure compliance with COV ITRM Standard SEC 2001-01.1
- Improve policies and procedures for security controls on the PeopleSoft/FMSII and UNIX systems

Department of Motor Vehicles

- Assess needs and develop policies and procedures over the Fuels Tax Program
- Strengthen controls over access to the Commonwealth Accounting and Reporting System

Department of Rail and Public Transportation

- Strengthen internal controls in the budgeting and accounting support functions

We believe that none of the reportable conditions is a material weakness. The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

EXIT CONFERENCE

We discussed this report with management at each agency during exit conferences held the week of October 25, 2004

A handwritten signature in black ink, appearing to read "Walter H. H. H.", written in a cursive style.

AUDITOR OF PUBLIC ACCOUNTS

NJG/kva
kva:



COMMONWEALTH of VIRGINIA

DEPARTMENT OF TRANSPORTATION

1401 EAST BROAD STREET
RICHMOND, VIRGINIA 23219-2000

PHILIP A. SHUCET
COMMISSIONER

October 27, 2004

Memorandum To: Walter J. Kucharski
Auditor of Public Accounts

Subject: Report on CTF Agencies of the Secretary of Transportation
Response to Audit Finding Improve Policies and Procedures for
Security Controls on the PeopleSoft/FMSII and UNIX Systems

The Virginia Department of Transportation takes the security of our financial system very seriously. While the department feels adequate controls are exercised over both the PeopleSoft and Unix components of the system, we agree written procedures with the clear assignment of responsibilities should be developed. Work within the agency is already underway to document these processes and we will complete this initiative in the very near future.

Sincerely,

A handwritten signature in cursive script, appearing to read "Stacy D. McCracken".

Stacy D. McCracken
Controller



COMMONWEALTH of VIRGINIA

DEPARTMENT OF TRANSPORTATION
1401 EAST BROAD STREET
RICHMOND, VIRGINIA 2319-2000

PHILIP A. SHUCET
COMMISSIONER

Gary R. Allen, Ph. D.
CHIEF, TECHNOLOGY,
RESEARCH AND INNOVATION

October 27, 2004

Memorandum To: Mr. Walter J. Kucharski
Auditor of Public Accounts

Subject: COV ITRM Standard SEC 2001-01.1—Report on Transportation Funding

VDOT is in agreement with your assessment regarding COV ITRM Standard SEC 2001-01.1 concerning the conduct of a business impact analysis and risk assessment for critical information systems as it relates to security. We are also in agreement with your assessment of the confusion surrounding Agency and VITA responsibilities in the context of COV ITRM Standard SEC 2001-01.1.

VDOT has taken steps already to appoint Mr. Steve Mondul as the information security officer for VDOT. Mr. Mondul is the director of the Security and Emergency Management Division and has agency-wide responsibility for all security matters. At the present time, it is logical to place the responsibility of ITRM Standard SEC 2001-01.1 under the purview of his office. I have also raised several issues with VITA regarding the confusion surrounding meeting the requirements for the standard and Mr. Tom Bradshaw of VITA has indicated VITA will be providing clarification regarding VITA and Agency roles in this matter. I hope to receive that clarification in the next several weeks and will certainly take appropriate action based on the information VITA provides. In addition, VDOT IT Applications Division will work with Mr. Mondul and VITA to take the necessary steps to fill the gaps in the VDOT Continuity of Operations Plan to meet the requirements of SEC 2001-1.1.

Gary

Gary R. Allen, Ph.D.
Chief of Technology, Research & Innovation



COMMONWEALTH of VIRGINIA

Department of Motor Vehicles

2300 West Broad Street


D. B. Smit
Commissioner

Post Office Box 27412
Richmond, VA 23269-0001
866-DMV-LINE or
800-435-5137

MEMORANDUM

DATE: October 7, 2004

TO: Walter Kucharski
Auditor of Public Accounts

FROM: Jack Christian
DMV Controller 

SUBJECT: Management Point # 1

During the field work for FY 2003, the APA auditors found that two members of the Department of Motor Vehicles' Internal Audit staff had an inappropriate access level to the Commonwealth Accounting and Reporting System (CARS). At that time, the CARS Security Access forms were filled out to change the access to the correct level. However, for an undetermined reason, the forms never reached the Department of Accounts (DOA).

When this fact was brought to my attention in this management point, I ensured that the forms were again completed, carried to DOA and that DMV received copies certifying that the change had been made. Copies of the certified forms have been delivered to you.

Please allow me to point out that neither of these staff members accessed CARS during the period in which they had the inappropriate access level. Therefore, the risk to the agency was very low. I hope that the action taken resolves this finding.

If I can provide any further information regarding this matter, please let me know.

copy/ Bill Landsidle
Tracy Sheets



COMMONWEALTH of VIRGINIA

Department of Motor Vehicles

2300 West Broad Street

D. B. Smit
Commissioner

Post Office Box 27412
Richmond, VA 23269-0001
866-DMV-LINE or
800-435-5137

DMV's response to the proposed APA finding, "**Assess Needs and Develop Policies and Procedures over the Fuels Tax Program**"

We concur with the proposed finding and offer the following corrective action:

Formal Policy and Procedures Manual-Tax Services will continue to document material policies and procedures and incorporate them in the Policy and Procedure Manual. Staff will be trained on each policy and procedure prior to implementation. Target complete date for implementation of material policies and procedures is May 2005.

Reliable system generated reports-Tax Services will continue to work with our vendor to obtain reliable system generated reports. The vendor (ACS) has given us a time line of 6-12 months to provide the data in the report formats we need. This will be accomplished by October 2005. However, there is specific data that would require a structural change to ACS's database. This adds a higher level of complexity to the issue.

We are also looking at the potential to shorten this timeframe by utilizing DMV-developed reports.

Discrepancies- Tax Services will continue to identify and reconcile discrepancies as presented to the APA and provide the necessary resources to prioritize and reconcile past discrepancies.

Final Implementation of mandatory electronic filings in July 2005. - Tax Services will continue the Phase II project to ensure that filers mandated to file returns electronically beginning with July 2005 activity can submit returns electronically before the due date of September 2005.

Signature

Date

10/7/04



COMMONWEALTH of VIRGINIA

KAREN J. RAE
DIRECTOR

DEPARTMENT OF RAIL AND PUBLIC TRANSPORTATION
1313 EAST MAIN STREET, SUITE 300
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RICHMOND, VA 23218-0590

(804) 786-4440
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VIRGINIA RELAY CENTER
1-800-828-1120 (TDD)

October 15, 2004

TO: Walter J. Kucharski,
Auditor of Public Accounts (APA)

FROM: William S. Pittard, *WSP*
Chief Financial Officer

RE: Response to Management Comment #1

The Department of Rail and Public Transportation (DRPT) values the efforts of the APA and welcomes its comments concerning the operations of the agency. We share the same goals with respect to the agency's finances, and look forward to working with you into the future.

Your review is of particular interest to me as I just began my tenure with DRPT on September 7th. I share your concerns over the control environment mainly due to the lack of a clear agency-wide understanding of the activities of the finance and accounting area and how these activities fit with the overall objectives of the agency. The staff in this area has traditionally focused on day-to-day processing. DRPT is committed to strengthening the knowledge and expertise of the team in the finance division through improving the communications with the grants managers, cross training, and effective hiring decisions.

As part of my learning process here at DRPT, we are conducting our own review of the processes in the accounting and budgeting areas. This review will be documented through formal correspondence with our Director including an action plan to correct any items of concern. We hope to conclude this review early in November of 2004. We would very much appreciate receiving a detailed listing of the internal control weaknesses that were identified during your review. I assure you that these items will be addressed as part of our review.

DRPT currently utilizes the payroll service bureau at the Department of Accounts to perform the majority of its payroll functions. Additionally, the Department of Human Resources Management performs the majority of our human resources function. We are open to these types of arrangements and will continue to explore similar opportunities that are cost-effective in other areas of our administrative support functions.

We concur that the finance and accounting of the Department requires a high level of expertise and knowledge due to the complexity of the funding structure and diversity of the grants processing. These needs are augmented by the Dulles Corridor project. The project team assembled to oversee the Dulles Corridor project includes members with specific financial oversight responsibilities. These added resources should serve to bolster the internal control environment for this project. We doubt that a fiscal officer from another agency would be able to provide this requisite knowledge of DRPT – especially with the demands of that person’s own agency competing directly with the demands of DRPT.

C: Karen Rae

SECRETARIAT OFFICIALS

Secretary of Transportation
Whittington W. Clement

Department of Transportation
Philip Shucet, Commissioner

Department of Motor Vehicles
Demerst B. Smit, Commissioner

Department of Rail and Public Transportation
Karen J. Rae, Executive Director

Department of Aviation
Ralph Davis, Acting Director

Motor Vehicle Dealer Board
Bruce Gould, Executive Director

Virginia Port Authority
J. Robert Bray, Executive Director

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Ranjit K. Sen
Gustav H. Stalling III

Deborah K. Stearns

Jody M. Wagner, State Treasurer

AGENCIES OF THE SECRETARY OF TRANSPORTATION
SUMMARY FINANCIAL INFORMATION
SOURCES AND USES
For Fiscal Years 2004 and 2003

	Transportation		Motor Vehicles		Aviation	
	2004	2003	2004	2003	2004	2003
Sources:						
General Fund appropriations	\$ 122,929,586	\$ 90,604,200	\$ -	\$ -	\$ 48,137	\$ 40,298
Federal grants and contracts	635,805,292	676,053,316	11,655,801	13,995,921	90,570	294,519
Taxes	609,984,827	559,870,129	1,160,523,630	1,097,102,781	27,412,453	24,796,835
Fees, licenses, and permits	33,405,575	36,540,985	377,013,953	357,318,112	579,284	550,589
Tolls	56,928,031	54,484,194	-	-	-	-
Fines and assessments	27,005	49,929	24,471,842	28,160,716	673	1,362
Interest, dividends, and rents	21,829,444	33,009,628	14,974	3,105	340,521	1,020,036
Bond proceeds	4,679,309	1,108,798,854	-	-	-	-
Other	29,215,724	20,336,695	326,123	1,169,776	3,613,573	7,018,122
Receipts from cities, counties, and towns	55,904,551	39,211,218	-	-	-	-
Transfers	1,239,092,436	816,554,239	(1,365,965,018)	(1,307,312,537)	(3,616,742)	(8,740,890)
Total sources	\$ 2,809,801,780	\$ 3,435,513,387	\$ 208,041,305	\$ 190,437,874	\$ 28,468,469	\$ 24,980,871
Uses:						
Administrative	\$ 97,581,274	\$ 89,382,052	\$ 35,052,138	\$ 37,016,967	\$ 708,059	\$ 712,750
Highway acquisition and construction	1,226,538,754	1,321,357,380	-	-	-	-
Highway maintenance	879,460,577	903,346,874	-	-	-	-
Financial assistance to localities	259,646,782	250,043,039	36,324,717	36,581,855	-	-
Vehicle and driver regulation	-	-	125,849,219	117,353,427	-	-
Toll facilities	37,982,558	31,610,939	-	-	-	-
Debt service, principal and interest	223,071,403	175,554,385	-	-	-	-
Rail and public transportation	-	-	-	-	-	-
Aviation	-	-	-	-	20,145,569	32,049,332
Other uses	24,839,085	29,287,428	8,170,166	8,084,507	-	-
Total uses	\$ 2,749,120,433	\$ 2,800,582,097	\$ 205,396,240	\$ 199,036,756	\$ 20,853,628	\$ 32,762,082

Source: Commonwealth Accounting and Reporting System - Cash basis

Rail and Public Transportation		Dealer Board		Secretary		Total Secretary	
2004	2003	2004	2003	2004	2003	2004	2003
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 122,977,723	\$ 90,644,498
16,765,592	15,941,990	-	-	-	-	664,317,255	706,285,746
109,410,893	104,041,914	-	-	-	-	1,907,331,803	1,785,811,659
3,003,363	2,868,583	1,818,297	1,691,593	-	-	415,820,472	398,969,862
-	-	-	-	-	-	56,928,031	54,484,194
4,120	8,340	-	-	-	-	24,503,640	28,220,347
753,456	1,523,931	25,754	203,990	-	-	22,964,149	35,760,690
-	-	-	-	-	-	4,679,309	1,108,798,854
981	2,272	221,684	229,909	-	-	33,378,085	28,756,774
354,987	473,454	-	-	-	-	56,259,538	39,684,672
30,599,805	48,959,243	(374,659)	(4,651,809)	558,751	523,291	(99,705,427)	(454,668,463)
<u>\$ 160,893,197</u>	<u>\$ 173,819,727</u>	<u>\$ 1,691,076</u>	<u>\$ (2,526,317)</u>	<u>\$ 558,751</u>	<u>\$ 523,291</u>	<u>\$ 3,209,454,578</u>	<u>\$ 3,822,748,833</u>
\$ 1,286,781	\$ 1,169,634	\$ 1,621,750	\$ 1,623,473	\$ 558,751	\$ 523,291	\$ 136,808,753	\$ 130,428,167
-	-	-	-	-	-	1,226,538,754	1,321,357,380
-	-	-	-	-	-	879,460,577	903,346,874
-	-	-	-	-	-	295,971,499	286,624,894
-	-	-	-	-	-	125,849,219	117,353,427
-	-	-	-	-	-	37,982,558	31,610,939
-	-	-	-	-	-	223,071,403	175,554,385
158,723,446	153,245,665	-	-	-	-	158,723,446	153,245,665
-	-	-	-	-	-	20,145,569	32,049,332
-	-	-	-	-	-	33,009,251	37,371,935
<u>\$ 160,010,227</u>	<u>\$ 154,415,299</u>	<u>\$ 1,621,750</u>	<u>\$ 1,623,473</u>	<u>\$ 558,751</u>	<u>\$ 523,291</u>	<u>\$ 3,137,561,029</u>	<u>\$ 3,188,942,998</u>

COMMONWEALTH OF VIRGINIA - DEPARTMENT OF ACCOUNTS
HIGHWAY MAINTENANCE AND OPERATING FUND
AND TRANSPORTATION TRUST FUND REVENUES
SUMMARY STATEMENT OF REVENUE ESTIMATES AND COLLECTIONS
For Fiscal Years 2003 and 2004
(Dollars in Thousands)

	FY 2004 Estimate	As a % of Total Fund	June		% Change
			FY 2004	FY2003	
Revenue:					
Motor fuel taxes	\$ 825,100	25.00	\$ 146,214	\$ 140,342	4.20
Priority Transportation Fund	20,000	0.61	2,000	2,000	0.00
Motor vehicle sales and use tax	573,600	17.39	57,011	53,819	5.90
State sales and use tax	395,800	12.00	37,887	33,331	13.70
Motor vehicle license fees	156,600	4.74	15,067	15,194	(0.80)
International Registration Plan	58,800	1.78	8,179	7,866	4.00
Interest earnings	9,900	0.30	157	1	*
Miscellaneous taxes, fees, and revenues	18,600	0.57	2,101	1,700	23.60
Total state taxes and fees	\$2,058,400	62.39	268,616	\$254,253	5.60

* Percentage is greater than 1,000%

Source: Department of Taxation

Year-To-Date			% Annual
FY 2004	FY 2003	% Change	Growth Required By Estimate
\$ 846,080	\$ 808,527	4.6	2.0
20,000	20,000	-	-
604,078	542,743	11.3	5.7
415,042	375,681	10.5	5.4
162,754	158,703	2.6	(1.30)
54,349	57,569	(5.60)	2.10
10,670	14,625	(27.00)	(32.30)
21,369	23,232	(8.00)	(19.90)
<u>\$2,134,342</u>	<u>\$2,001,080</u>	<u>6.70</u>	<u>2.90</u>

COMMONWEALTH OF VIRGINIA - DEPARTMENT OF ACCOUNTS
HIGHWAY MAINTENANCE AND OPERATING FUND
AND TRANSPORTATION TRUST FUND REVENUES
STATEMENT OF REVENUE ESTIMATES AND COLLECTIONS
For Fiscal Years 2003 and 2004
(Dollars in Thousands)

	FY 2004 Estimate	As a % of Total Fund	June	
			FY 2004	FY 2003
Revenue:				
Highway Maintenance and Operating Fund:				
Motor fuel taxes (includes road tax)	703,200	21.31	127,126	120,174
Motor vehicle sales and use tax	368,700	11.18	36,629	34,293
Motor vehicle license fees	135,700	4.11	13,072	13,152
International Registration Plan	58,800	1.78	8,179	7,866
Miscellaneous taxes, fees, and revenues	18,600	0.57	2,101	1,700
Total state taxes and fees	1,285,000	38.95	187,107	177,185
Other revenues:				
Federal grants and contracts	-	-	1,061	988
Transfer (to)/from Transportation Trust Fund	20,200	0.61	-	(40,343)
Total Highway Maintenance and Operating Fund	1,305,200	39.56	188,168	137,830
Transportation Trust Fund:				
Motor fuel taxes (includes aviation and road taxes)	121,900	3.69	19,088	20,168
Priority Transportation Fund	20,000	0.61	2,000	2,000
Motor vehicle sales and use tax (includes rental tax)	204,900	6.21	20,382	19,526
State sales and use tax	395,800	12.00	37,887	33,331
Motor vehicle license fees	20,900	0.63	1,995	2,042
Interest earnings	9,900	0.30	157	1
Total state taxes and fees	773,400	23.44	81,509	77,068
Other revenues:				
Federal grants and contracts	1,068,800	32.39	31,937	41,271
Receipts from cities/counties	45,500	1.38	493	(1,605)
Toll revenues (includes Route 28)	60,800	1.84	5,175	11,650
Miscellaneous revenues	65,900	2.00	1,881	897
Total other revenues	1,241,000	37.61	39,486	52,213
Transfer (to)/from Highway Maintenance and Operating Fund	(20,200)	(0.61)	-	40,343
Total Transportation Trust Fund	1,994,200	60.44	120,995	169,624
Total Highway Maintenance and Operating Fund and Transportation Fund	\$ 3,299,400	100.00	\$ 309,163	\$ 307,454

* Percentage is greater than 1,000%.

Source: Department of Taxation

Year-To-Date				% Annual Growth Required By Estimate
% Change	FY 2004	FY 2003	% Change	
5.80	727,945	688,411	5.70	2.10
6.80	388,736	347,915	11.70	6.00
(0.60)	142,242	139,011	2.30	(2.40)
4.00	54,349	57,569	(5.60)	2.10
23.60	21,369	23,232	(8.00)	(19.90)
5.60	1,334,641	1,256,138	6.20	2.30
7.40	13,419	13,634	(1.60)	(100.00)
100.00	56,902	96,927	(41.30)	(79.20)
36.50	1,404,962	1,366,699	2.80	4.50
(5.40)	118,135	120,116	(1.60)	1.50
-	20,000	20,000	-	-
4.40	215,342	194,828	10.50	5.20
13.70	415,042	375,681	10.50	5.40
(2.30)	20,512	19,692	4.20	6.10
*	10,670	14,625	(27.00)	(32.30)
5.80	799,701	744,942	7.40	3.80
(22.60)	639,152	678,299	(5.80)	57.60
130.70	31,701	25,284	25.40	80.00
(55.60)	74,564	62,805	18.70	(3.20)
109.70	18,346	17,384	5.50	279.10
(24.40)	763,763	783,772	(2.60)	58.30
(100.00)	(56,902)	(96,927)	41.30	79.20
(28.70)	1,506,562	1,431,787	5.20	39.30
0.60	\$ 2,911,524	\$ 2,798,486	4.00	17.90

MAJOR STATE TRANSPORTATION REVENUE SOURCES

Gasoline Motor Fuels Taxes

Highway Maintenance and Operating Fund	\$.1486
Transportation Trust Fund	.0250
Department of Motor Vehicles	<u>.0014</u>
Total (per gallon)	<u><u>\$.1750</u></u>

Motor Vehicle Sales and Use Tax

Highway Maintenance and Operating Fund	2.00%
Transportation Trust Fund	<u>1.00%</u>
Total	<u><u>3.00%</u></u>

Motor Vehicle License Fee

Highway Maintenance and Operating Fund	\$16.00
Department of Motor Vehicles	4.00
Transportation Trust Fund	3.00
General Fund/Emergency Management Services/Rescue Squad	4.00
State Police	1.50
Jamestown/Yorktown Foundation	<u>1.00</u>
Total	<u><u>\$29.50</u></u>

State General Sales and Use Tax

Transportation Trust Fund	.5%
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COMMONWEALTH TRANSPORTATION FUND

Highway Maintenance and Transportation Trust Funds

